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U.S.-JAPAN COMPETITION IN CONSTRUCTION

Summary

Tokyo's willingness to allow American construction companies to bid on the huge Kansai International Airport project is being billed in Washington as a litmus test of the government's commitment to open Japanese markets to foreign competition. U.S. contractors have a lot riding on the results of this test since it will determine whether they can compete for the vast amount of new business generated by other big public works projects. But with few other growth markets at home and limited opportunities for more overseas work, Japanese construction companies are not anxious to share these contracts with their struggling American counterparts. What U.S. government and industry officials find particularly troublesome about this attitude is that Japanese contractors are winning an increasing number of contracts in this country, including some public works projects.

Looking for Business

Construction has become the latest battleground in the Reagan administration's fight to win expanded market opportunities in Japan for American businesses. Assistant Secretary of Commerce for Trade Development H.P. Goldfield has spearheaded a year-long drive for changes in the system used to award public works contracts, arguing that it prevents foreign architectural, engineering and construction companies from competing for prime contracts no matter how extensive their experience and expertise. At the heart of this campaign is the designated bidder system, in which a contracting agency invites registered companies to submit qualifications and proposals for particular parts of its

project and then compiles a short list of finalists that can bid on the contract. For frustrated U.S. government and industry officials, this procurement process shouts "no foreigners need apply."

The immediate target of Washington's demand for open and transparent bidding procedures is Kansai International Airport -- a Y1 trillion ($6.7 billion at Y150=$1.00) project to build a state-of-the-art facility on a manmade island in Osaka Bay. By mid-1986 U.S. trade policymakers had reluctantly accepted the fact that foreign firms would not be allowed to participate as prime contractors on the lucrative civil engineering part of the project because beginning the bidding process all over again would seriously delay the start of construction, then scheduled for the end of the year. But they continue to press Kansai International Airport Co., Ltd., the quasi-governmental organization in charge of the project, to switch to open international bidding procedures for contracts to supply machinery and services for first-phase work, which includes construction of the offshore island, seawalls and a connecting bridge. Competitive bidding is also being pushed for the project's second stage -- the construction of runways, aprons, terminals and other buildings -- and its third phase -- the purchase of navigational systems and other equipment.

The White House has invested more than the usual amount of political capital in its campaign to win American companies the right to compete for Kansai airport contracts. The obvious reason is that administration officials believe they have prima facie evidence of discrimination against firms considered to be in the forefront of airport construction technology. But there is a more basic explanation. Kansai airport is just one of perhaps a dozen huge Japanese public works projects scheduled for completion by the turn of the century. If U.S. contractors are given the chance to bid on that project, Washington reasons, they will be positioned to compete successfully on such upcoming projects as the Y1.15 trillion ($7.7 billion) bridge and tunnel across Tokyo Bay and the Y2 trillion ($13.3 billion) expansion of the Port of Yokohama.

For U.S. construction companies, which say they have been trying to participate in the Kansai project for at least five years, the mammoth Japanese public works projects coming up for bid are one of the few bright spots in an otherwise gloomy outlook. New construction business at home is expected to decline in the late 1980s, a casualty of sluggish economic growth, cutbacks in government spending, the loss of investor tax incentives and a still big U.S. trade deficit. Among the hardest-hit markets could be two of the props of the 1983-86 expansion in domestic contract awards -- transportation and commercial work. Less federal aid for highway and bridge construction and repair is taken as a given, while commercial work, particularly office construction, will be hobbled by overbuilding in the mid-1980s and tax reform.

Increased funding for water projects could take up some of the slack in public works contracts caused by the slowdown in the transportation market, but that is one of the few offsets industry executives and analysts anticipate. The new tax bill has killed any chance of a near-term turnaround in the market

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Table 1A: Top American Contractors, 1981-85*

(in millions of dollars)

	1981		1982		1983		1984		1985	
	Total	Foreign	Total	Foreign	Total	Foreign	Total	Foreign	Total	Foreign
Parsons Corp.	$10,244.0	$3,654.0	$4,319.7	$3,074.4	$6,627.7	$4,160.7	$7,514.7	$3,010.2	$8,620.0	$5,027.1
Bechtel Group Inc.	10,114.0	6,923.0	5,490.0	3,866.0	13,810.0	7,884.0	8,220.0	4,905.0	7,364.0	3,626.0
M.W. Kellogg Co.**	6,700.0	3,700.0	8,200.0	5,000.0	8,500.0	5,000.0	10,855.0	8,630.0	6,757.0	6,204.0
Morrison Knudsen Corp.	5,535.7	3,205.4	3,104.4	1,325.8	2,003.4	74.4	2,086.7	463.5	5,887.7	418.2
Brown & Root Inc.	10,738.0	2,642.0	2,472.9	1,250.1	2,059.4	769.2	3,883.9	1,288.7	5,578.7	2,928.7
Fluor Corp.	10,600.0	4,200.0	6,507.1	4,097.3	2,605.0	1,193.0	8,353.3	1,527.8	5,127.5	1,392.3
Rust International Corp.**	--	--	--	--	--	--	--	--	5,097.9	94.5
Lummus Crest Inc.	4,600.0	2,693.0	3,252.0	2,392.0	2,460.0	1,720.0	3,200.0	2,300.0	3,500.0	2,420.0
Stearns Catalytic Corp.***	3,556.5	698.0	4,045.0	384.0	3,118.6	791.2	4,932.3	549.4	3,118.9	473.0
Ebasco Services Inc.	3,416.1	420.1	2,880.6	508.4	2,072.4	54.1	1,580.5	134.5	2,751.9	62.1

Table 1B: Top Japanese Contractors, 1981-85*

(in millions of dollars)

	1981		1982		1983		1984		1985	
	Total	Foreign	Total	Foreign	Total	Foreign	Total	Foreign	Total	Foreign
Kajima Corp.	$4,494.0	$252.0	$4,352.8	$363.8	$3,840.1	$291.1	$3,787.0	$485.0	$4,953.4	$627.7
Shimizu Construction Co., Ltd.	4,220.4	220.4	4,379.9	471.9	4,299.5	537.0	3,931.7	345.9	4,779.1	605.4
Kumagai Gumi Co., Ltd.	2,899.8	216.9	3,115.3	550.3	3,283.5	737.1	3,227.7	850.2	4,692.2	2,175.8
Tasei Corp.	4,521.0	485.0	4,067.0	481.0	4,834.0	453.0	4,213.0	247.0	4,641.3	266.5
Mitsubishi Heavy Industries, Ltd.	n.a.	801.6	n.a.	n.a.	n.a.	195.0	3,800.0	720.0	4,410.0	1,425.0
Ohbayashi Corp.	n.a.	n.a.	n.a.	n.a.	3,378.8	375.4	3,122.5	359.9	4,280.0	377.8
Takenaka Komuten Co., Ltd.	n.a.	n.a.	3,043.8	311.4	3,101.3	304.4	3,011.8	191.5	3,787.0	189.0
Hazama-Gumi Ltd.	n.a.	n.a.	n.a.	66.9	1,841.5	346.5	1,855.0	319.1	2,266.3	499.8
Fujita Corp.	1,929.0	216.0	n.a.	n.a.	n.a.	n.a.	1,611.7	81.7	1,980.0	83.0
Sato Kogyo Co., Ltd.	1,397.7	123.6	n.a.	n.a.	1,172.9	134.2	1,219.6	113.6	1,913.2	121.1

* Listed in terms of total 1985 contracts.

** In 1985 Kellogg Rust Inc. was split into its two operating units, M.W. Kellogg Co. and Rust International Corp. The contracts won by Kellogg Rust in the 1981-84 period are listed under M.W. Kellogg.

*** Stearns Catalytic Corp. was formed in 1981 through the merger of Stearns-Roger Engineering Corp. and Catalytic Inc. The 1981 figure for Stearns Catalytic reflects the contracts won by the two separate companies.

Note: Figures include prime contracts, shares of joint ventures, subcontracts, design-construct contracts and construction management contracts where the firm is exposed to financial liability similar to a general contractor (greater than $500,000). Design-construct contracts are based on the erected value of the plant, including installed equipment. Construction management contracts are based on the erected value of the project managed.

Source: Engineering News-Record and International Construction Week. Used with permission.

for multifamily housing, for example. Meanwhile, new industrial and process plant contracts are expected to remain limited because of the U.S. oil industry's troubles, the weak economy and the continuing trade problems of many manufacturing sectors.

To make matters worse, the prospects for new overseas work -- the bread and butter of many of the U.S. construction industry's heavyweights (see Table 1A) -- remain bleak. Foreign business has been on the skids for five years, with 1985 contract awards adding up to only about half of 1981's record total (see Table 2). The causes of this contraction are straightforward. For starters, the drop in oil prices has forced governments in the Middle East, the biggest market for international contractors, to scale back their ambitious building plans for both infrastructure and process plants. Similarly, the enormous financial problems of Latin American countries have led to the near-collapse of new contract awards there, whether for public works projects or natural resource processing plants. At the same time, generally slow growth in Europe and Canada has made other industrial countries weak markets for U.S. construction companies.

Table 2: Contracts Won by Top 400 U.S. Construction Companies, 1981-85

(in millions of dollars)

	1981	1982	1983	1984	1985
Total	$162,800	$128,491	$118,074	$131,228	$136,119
Domestic	109,169	83,223	88,288	100,328	107,131
Foreign	53,631	45,268	29,786	30,899	28,988
Middle East	15,296	18,383	12,754	10,694	7,805
Africa	3,791	2,872	2,463	1,682	4,281
Europe	7,532	6,902	4,724	5,473	4,327
Asia	10,436	8,923	4,949	8,832	7,803
Latin America	10,950	4,491	1,739	1,639	2,266
Canada	5,626	3,697	3,156	2,579	2,505

Source: Engineering News-Record. Used with permission.

Asia (including Australia) was the only region where business held up fairly well for American contractors in the first half of the decade. It is also the region with the greatest potential for growth. But this prospect is generating the same fierce competition for work from international rivals that U.S. construction firms have increasingly encountered in other markets since neither European nor Asian contractors have been much more successful in bucking the post-1981 slide in new worldwide contract awards than domestic companies. For U.S. contractors active overseas, therefore, the ever-tougher battle for new work represents a one-two blow to future corporate earnings: thinner profit margins on fewer foreign contracts, forcing companies to pare margins to win business at home in a market that just managed to regain its 1981 size last year and is now headed back down.

Table 3: Top International Contractors, 1981-85*

(in millions of dollars)

1985 Rank	Company	Country	1981 Foreign	1981 Total	1982 Foreign	1982 Total	1983 Foreign	1983 Total	1984 Foreign	1984 Total	1985 Foreign	1985 Total
1	M.W. Kellogg Co.**	United States	$3,700.0	$6,700.0	$5,200.0	$8,200.0	$5,000.0	$8,500.0	$8,630.0	$10,855.0	$6,204.0	$6,757.0
2	Parsons Corp.	United States	3,654.0	10,244.0	3,074.4	4,319.7	4,160.7	6,627.7	3,010.2	7,514.7	5,027.1	8,620.0
3	Bechtel Group Inc.	United States	6,923.0	10,114.0	3,866.0	5,490.0	7,884.0	13,810.0	4,905.0	8,220.0	3,626.0	7,364.0
4	Brown & Root Inc.	United States	2,642.0	10,738.0	1,250.1	2,472.3	769.2	2,059.4	1,288.7	3,883.9	2,928.7	5,578.7
5	Lummus Crest Inc.	United States	2,693.0	4,600.0	2,392.0	3,252.0	1,720.0	2,460.0	2,300.0	3,200.0	2,420.0	3,500.0
6	Kumagai Gumi Co., Ltd.	Japan	216.9	2,899.8	550.3	3,115.3	737.1	3,283.5	850.2	3,227.7	2,175.8	4,692.2
7	Hyundai Engineering & Co., Ltd.	Korea	2,386.0	3,016.2	2,920.5	3,422.7	1,109.0	1,606.2	2,490.6	3,016.8	1,998.1	2,536.4
8	Philipp Holzmann AG	West Germany	3,726.0	5,390.0	3,223.7	4,864.4	1,755.1	3,657.1	1,931.3	3,291.3	1,948.2	3,232.5
9	SADE/SADELMI Group of Cos.	Italy	2,705.0	2,720.0	3,242.0	3,246.0	2,003.0	2,021.0	1,773.0	1,784.0	1,795.4	1,799.0
10	John Brown Engineers & Constructors	England	360.0	404.0	n.a.	n.a.	641.0	2,739.0	1,329.0	1,567.0	1,743.0	2,066.0
11	Davy Corp. plc	England	5,015.0	5,045.6	3,380.4	3,429.6	2,036.3	2,178.6	1,553.4	1,627.4	1,611.3	2,118.8
12	Foster Wheeler Corp.	United States	3,450.0	4,400.0	2,500.0	3,200.0	2,103.0	2,980.0	1,933.0	2,413.0	1,426.0	2,048.0
13	Mitsubishi Heavy Industries, Ltd.	Japan	801.6	n.a.	n.a.	n.a.	195.0	n.a.	720.0	3,800.0	1,425.0	4,410.0
14	Fluor Corp.	United States	4,200.0	10,600.0	4,097.3	6,507.1	1,193.1	2,605.1	1,527.8	8,353.3	1,392.2	5,127.4
15	IMPRESIT SpA	Italy	2,052.0	2,757.0	1,631.6	1,914.7	1,652.8	1,805.2	860.0	1,210.4	1,345.9	1,632.4
16	Bouygues	France	n.a.	n.a.	560.0	2,122.0	1,100.0	2,320.0	1,000.0	2,700.0	1,250.0	3,050.0
17	Spie Batignolles	France	1,543.7	2,306.7	1,070.0	2,074.3	1,092.3	1,825.2	1,101.6	1,826.0	1,212.3	2,442.6
18	Italimpianti SpA	Italy	248.2	289.9	334.5	409.1	55.0	130.2	153.8	256.7	1,170.5	1,389.0
19	Societe Auxiliare d'Entreprises	France	990.0	2,180.0	1,505.0	2,808.0	1,446.0	2,487.0	660.0	1,454.0	1,164.0	2,501.0
20	Enka Construction & Industry Co., Inc.	Turkey	743.0	1,007.0	1,129.7	1,405.8	1,595.0	1,869.8	1,347.4	1,655.3	1,081.6	1,572.5
21	JGC Corp.	Japan	699.3	893.8	2,480.7	3,069.5	642.0	990.0	519.0	771.0	1,020.1	1,420.2
22	Daewoo Corp.	Korea	2,077.0	2,360.4	533.8	911.3	891.3	1,266.8	677.0	1,056.0	921.4	1,208.4
23	Saipem SpA	Italy	448.0	n.a.	304.2	n.a.	747.0	835.0	532.9	561.1	826.2	909.9
24	Chiyoda Chemical Engineering & Construction Co., Ltd.	Japan	711.1	1,433.6	1,118.0	1,391.0	991.0	1,218.0	350.0	616.0	801.0	1,161.0
25	Voest-Alpine AG	Austria	n.a.	n.a.	1,000.0	1,170.0	430.0	472.0	622.3	656.3	783.8	896.0

* Ranked in terms of foreign contracts won in 1985.

** In 1985 Kellogg Rust Inc. was split into its two operating units, M.W. Kellogg Co. and Rust International Corp. The contracts won by Kellogg Rust in the 1981-84 period are listed under M.W. Kellogg.

Note: Figures include prime contracts, shares of joint ventures, subcontracts, design-construct contracts and construction management contracts where the firm is exposed to financial liability similar to a general contractor (greater than $500,000). Design-construct contracts are based on the erected value of the plant, including installed equipment. Construction management contracts are based on the erected value of the project managed.

Source: Engineering News-Record and International Construction Week. Used with permission.

More often than not, American contractors are losing business to their traditional rivals, the Europeans. In fact, European construction companies won more new work overseas in the 1981-85 period than U.S. firms did. This enabled them to nail down 11 of the top 25 positions on Engineering News-Record's 1985 list of the world's 250 leading international contractors compared with 7 for the United States (see Table 3).

Domestic industry executives point out that with many developing countries in a precarious financial position, technical and managerial expertise and cost competitiveness often take a backseat in contract awards to the ability to arrange attractive project financing. These conditions of competition, it is argued, favor European contractors as well as Japanese and Korean companies: they are able to tap lower-cost commercial bank loans and/or their governments are willing to provide credits on terms that frequently circumvent the Organization for Economic Cooperation and Development's "gentlemen's agreement" on export financing.

Trying to Keep Business

Japanese contractors are also banking on big-ticket public works projects like Kansai airport and the trans-Tokyo Bay project to carry them through the lean times anticipated in several key domestic markets. Double-digit increases in capital spending by manufacturers and service-industry companies alike in both 1984 and 1985 translated into back-to-back record volumes of contract awards for Japanese construction companies (see Table 4). Moreover, preliminary data indicate that 1986 was another banner year for the industry, thanks largely to increased investment by electric utilities and gas companies -- the main beneficiaries of the strong yen, more institutional (hospitals, for example) and leisure-industry contracts, and steady office and retail construction work. But with most signs pointing to slower economic growth in the late 1980s, analysts question whether the nonmanufacturing sector will maintain its strong investment pace. Any cutback, they warn, would make it hard for contractors to offset the drop in new business in the manufacturing sector, which continues to scale back spending plans in the face of the appreciating yen, and what appears to be another plateau in residential construction work.

Construction firms in Japan are actually in a double bind since they can no longer count on an increase in overseas work. While U.S. contractors were watching their new foreign business shrink in the mid-1980s, Japanese builders managed to win a steady stream of contract awards abroad (see Table 5). Their strategy was deceptively simple: to move aggressively into the United States and Australia -- two growth markets where they had previously done little work -- as developing country markets began to contract. This reorientation has helped the industry maintain a big backlog of work, but it has not improved the profit picture for Japan's five biggest contractors (see Table 6). If anything, analysts say, the expansion into this country and Australia has added to the drain on earnings caused initially by cutthroat international competition for contracts in the Third World.

Now Japanese construction companies face the same gloomy outlook for foreign business as their American counterparts. In fact, their medium-term prospects are probably worse since the strong yen puts the Japanese industry at

Table 4: Contract Awards in Japan, 1981-85*

(in billions of yen**)

	1981	1982	1983	1984	1985
Total	Y9,674.4	Y9,512.3	Y9,547.0	Y11,493.6	Y12,157.6
By sector					
Public sector	3,531.6	3,398.7	3,259.9	3,468.5	3,370.3
Private sector	5,408.9	5,272.1	5,363.8	6,733.4	7,430.7
By type of work					
Building	5,722.5	5,593.9	5,712.8	7,034.3	7,577.6
Offices and stores	1,707.9	1,734.6	2,101.8	2,255.1	2,786.3
Factories, warehouses and power stations	1,004.8	981.3	915.2	1,390.2	1,330.2
Residential	1,034.3	1,063.7	973.6	1,362.9	1,453.7
Schools, hospitals and public offices	1,376.0	1,216.9	1,146.1	1,327.6	1,261.6
Other	599.6	597.3	576.1	698.5	745.9
Civil engineering	3,951.9	3,918.3	3,834.2	4,459.3	4,580.1
Dams	341.6	295.5	337.4	313.3	288.5
Flood control	105.1	138.7	114.7	164.2	123.8
Water works and sewage	635.3	578.9	546.7	675.9	647.1
Railroads	414.3	420.6	410.7	347.0	343.6
Ports	305.7	311.4	259.2	249.0	283.4
Highways and bridges	573.0	593.4	665.7	808.4	854.8
Land development	474.0	467.5	430.7	495.7	630.5
Electricity, gas and communications	418.5	386.4	394.4	432.4	431.4
Other	684.5	725.9	674.6	973.4	977.0

* Prime contracts won by 43 major construction companies in the 1981-82 period and by 50 big contractors in the 1983-85 period.

** The yen figures can be converted to dollars using the following average annual exchange rates: 1981, Y220.54; 1982, Y249.08; 1983, Y237.51; 1984, Y237.52; and 1985, Y238.54.

Source: Ministry of Construction

a competitive disadvantage, particularly when industrial and process plant contracts are up for bid. Sketchy information suggests that Japanese contractors are already feeling the triple blow of declining new construction business both here and in third markets, increased competition for what new work there is, and the yen's appreciation. No one in the industry expects the value of FY 1986 foreign contracts to be off by as much as the 48.4 percent plunge in April-June 1986 awards, but a 25 percent drop accompanied by another decline in profits would come as little surprise.

Although cold comfort to corporate executives, Japanese contractors are in a better position to weather the downturn in the international construction

Table 5: Foreign Contracts Won by Japanese Construction Companies, FY 1981-FY 1985*

(in millions of yen**)

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
Total	Y712,758	Y921,556	Y1,014,000	Y935,027	Y1,029,648
Parent companies	629,587	770,663	848,420	736,960	859,217
Overseas affiliates	83,171	150,894	165,581	198,067	170,431
By region					
Asia	437,345	696,427	675,720	501,730	396,175
Middle East	191,022	118,324	163,271	75,738	55,275
Africa	16,520	9,594	10,683	3,402	22,775
North America	21,814	33,266	83,250	207,122	268,538
Latin America	40,547	33,459	14,657	22,421	51,598
Western Europe	2,882	8,228	7,231	9,540	16,804
Eastern Europe	90	13,550	0	0	16,370
Oceania	2,538	8,708	59,188	115,074	202,113
By type of work					
Landfill	34,740	53,719	80,278	16,671	28,072
Ports	37,446	49,377	10,805	18,176	29,937
Railroads	68,074	118,592	60,676	58,165	45,610
Highways	26,044	68,634	49,432	46,132	8,228
Airports	2,793	1,377	12,989	21,009	3,410
Industrial plants	39,463	37,071	92,046	44,782	66,339
Power plants	26,769	100,371	147,978	48,410	40,078
Dams	13,026	6,769	17,688	5,000	31,982
Water works	22,563	30,280	16,927	19,760	11,753
Public construction	218,708	176,676	134,515	157,689	57,877
Commercial construction	85,560	154,279	215,913	288,336	496,905
Urban development and other	69,074	22,046	46,934	40,827	91,101

* Contracts won by the 57 members of the Overseas Construction Association of Japan, Inc. Contract amounts exclude equipment costs.

** The yen figures can be converted to dollars using the following average annual exchange rates: FY 1981, Y227.52; FY 1982, Y249.64; FY 1983, Y236.33; FY 1984, Y244.19; and FY 1985, Y221.09.

Source: Overseas Construction Association of Japan, Inc.

business than American companies since they have always been less dependent on foreign contracts for new work than most of their major rivals (see Table 1B). Even in 1985, their peak year for foreign contract awards, Japanese construction firms generated only 19.5 percent of their new business overseas, according to Engineering News-Record's survey. The comparable figure for U.S. contractors was 38.4 percent, while for European builders it ranged anywhere from 45 to 80 percent.

Table 6: Financial Profiles of Japan's Top Contractors

(in millions of yen*)

	Total Revenues	Pre-Tax Profits	Source of Revenues: Building	Civil Engineering	Real Estate
Shimizu Construction Co., Ltd.					
FY 1981	Y776,990	Y36,446	75%	24%	1%
FY 1982	871,854	36,462	75	24	1
FY 1983	964,131	36,672	81	18	1
FY 1984	923,544	31,852	79	19	2
FY 1985	1,052,293	28,370	78	19	3
Kajima Corp.**					
FY 1981	863,125	41,222	59	37	-
FY 1982	942,592	38,621	64	33	-
FY 1983	932,062	27,668	62	33	-
FY 1984	913,628	27,108	61	34	-
FY 1985 (projected)	990,000	27,000	n.a.	n.a.	n.a.
Taisei Corp.					
FY 1981	811,667	33,202	67	30	3
FY 1982	845,461	33,465	73	26	2
FY 1983	907,700	31,128	70	29	1
FY 1984	968,322	28,350	70	27	3
FY 1985	978,607	23,058	73	25	2
Kumagai Gumi Co., Ltd.***					
FY 1981	607,197	34,364	49	49	2
FY 1982	631,417	34,509	46	48	6
FY 1983	614,485	30,059	47	46	7
FY 1984	709,863	32,559	47	43	10
FY 1985	841,000	28,372	n.a.	n.a.	n.a.
Ohbayashi Corp.					
FY 1981	681,594	24,667	61	35	4
FY 1982	644,726	25,802	66	32	2
FY 1983	689,883	25,918	64	34	2
FY 1984	766,318	22,514	64	32	4
FY 1985	797,786	20,415	70	26	4

* The yen figures can be converted to dollars using the following average annual exchange rates: FY 1981, Y227.52; FY 1982, Y249.64; FY 1983, Y236.33; FY 1984, Y244.19; and FY 1985, Y221.09.

** Year ending in November.

*** Year ending in September.

Source: Toyo Keizai Shinposha, Japan Company Handbook

The flip side of the Japanese number is what is important to industry officials since it highlights the fact that Japanese construction companies have climbed up the list of the world's top contractors largely on the strength of new business at home (see Appendix). They are obviously not anxious to share this business with foreign competitors, particularly if the work in question -- Kansai airport and other mammoth public works programs -- represents their one certain source of future contracts.

The Other Controversy

What American industry and government officials find most frustrating about the reluctance of Japanese contractors to compete in their home market with foreign builders is that these same companies are rapidly expanding their U.S. presence. According to data compiled by Engineering News-Record's International Construction Week, Japanese construction firms won contracts worth $1.8 billion in this country in 1985 -- a jump of 168.5 percent in just one year and a far cry from the $100 million or so in new work they found here in 1982. No figures are yet available for 1986, but market watchers conservatively estimate that Japanese contractors did $3 billion worth of business. Whatever the final number, it will add fuel to the controversy over the U.S. activities of Japanese construction companies.

Leaving aside the question of unequal market access -- admittedly a difficult thing to do in the current environment, it is hard to figure out why the increased work being done by Japanese contractors in this country has triggered as much controversy as it has. After all, their 1985 contract volume represented just 1.1 percent of all new construction business in the United States. Even if 1986 contracts added up to more than $3 billion, they would still equal only 2 percent-plus of total awards.

What's more, Japanese companies are not the biggest foreign contractors in this country; European builders are, but their work is less visible since it is conducted mainly through acquired American construction firms. For example, West Germany's Philipp Holzmann AG owns the Jones Group Inc., the 15th-biggest U.S. contractor in 1985 with $1.6 billion in awards, while Bilfinger + Berger Bau AG is the parent of 40th-ranked Fru-Con Corp., which had nearly $0.6 billion in new construction work in 1985. At least three major French contractors have also used acquisitions to expand their U.S. business, as have several other leading European firms.

Japanese construction companies have rejected the takeover route, opting instead to build their U.S. business from scratch. Kajima Corp., the parent of Kajima International Inc., which ranked 68th on Engineering News-Record's 1985 list of the top 400 American contractors with a contract volume of $314.5 million, has been working in this country since 1964, while Ohbayashi Corp. established an American subsidiary in 1972. Most of Japan's other big contractors have been here for at least 10 years. They feel they have paid their dues and are entitled to whatever work they can win.

Most of this work still comes from Japanese companies. International Construction Week estimated, for example, that $1.3 billion of the $1.8 billion worth of new business reported by Japanese contractors in 1985 was awarded by Japanese clients, including institutional investors that regard commercial and

residential buildings in the United States as good investments as well as manufacturers establishing production facilities here or expanding their U.S. sales operations.

The record number of Japanese-owned manufacturing companies set up in this country during 1985 (see JEI Report No. 13A, April 4, 1986) generated $550 million in new business for Japanese contractors, ICW calculated. Roughly four-fifths of this total was for automotive assembly plants, as Mazda Motor Corp., Mitsubishi Motors Corp. and Toyota Motor Corp. broke ranks with Honda Motor Co., Ltd. and Nissan Motor Co., Ltd. -- the first two Japanese motor vehicle makers to establish a U.S. production base -- and selected Japanese companies to build their American factories. Kajima won the contract to design and build both the Mazda plant, located in Flat Rock, Michigan, and the Bloomington-Normal, Illinois facility of Diamond-Star Motors Corp., a joint venture between Mitsubishi and Chrysler Corp., while Ohbayashi got the contract to construct Toyota's factory in Georgetown, Kentucky.

Office and plant contracts from Japanese manufacturers have always been the staple work of Japanese builders operating in the United States, but commercial and residential development projects for both Japanese investors and American clients are the major source of new business for most companies. Kumagai Gumi Co., Ltd., for example, jumped to the top of the list of Japanese construction firms reporting new U.S. work in 1985 by signing development contracts worth $574 million, including $336 million for the construction and renovation of three luxury hotels in Hawaii and $193 million for the construction of three mixed-use high-rise buildings in Manhattan.

Ohbayashi and one or two other Japanese contractors have branched out in a different direction, competing for public works contracts. Ohbayashi has been awarded 10 government-funded projects, mostly for tunnels, although in 1985 it won a $63 million Corps of Engineers contract for a dam in Oregon. For obvious reasons these awards have provoked the loudest outcry from the U.S. construction industry. But these complaints ignore a fundamental fact. Whether the Japanese project is a dam, an office building or a manufacturing facility, all of the actual construction work is subcontracted to American companies. Put another way, Japanese contractors working in the United States play the same role in a project as their American counterparts -- construction manager and general contractor.

The Two Controversies Meet

Although American contractors are the main beneficiaries of the fast-expanding volume of construction contracts won by Japanese companies, industry executives continue to call on Washington to retaliate against Japan for its failure to adopt competitive bidding procedures for the Kansai airport project. These calls have found a receptive audience at both ends of Pennsylvania Avenue, but threats of retaliation by Reagan administration trade negotiators and Sen. Frank Murkowski (R, Alaska) have done little to change attitudes in Japan. After nearly a year of bilateral discussions, most recently in late January, Kansai officials still take the contradictory position that foreign companies can compete for prime contracts but that the designated bidder system will not be abandoned.

Tokyo bought itself some time January 29 when government officials revealed that Caterpillar Tractor Co. had received an $86.7 million contract to supply large earthmoving machines. But Japan is not off the hook. While applauding the Caterpillar contract and three smaller awards to American companies, U.S. trade negotiators reiterated that "token" contracts such as these are not sufficient. In short, construction will remain a flash point in bilateral relations until Kansai authorities award several major contracts to U.S. firms.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Appendix: World's Top Contractors, 1981 and 1985

(in millions of dollars)

1981 Rank		Country	1981 Total	1981 Foreign
1	Brown & Root Inc.	United States	$10,738.0	$2,642.0
2	Fluor Corp.	United States	10,600.0	4,200.0
3	Parsons Corp.	United States	10,244.0	3,654.0
4	Bechtel Group Inc.	United States	10,114.0	6,923.0
5	Kellogg Rust Inc.	United States	6,700.0	3,700.0
6	Morrison Knudsen Co., Inc.	UnitedStates	5,535.7	3,295.4
7	Philipp Holzmann AG	West Germany	5,390.0	3,726.0
8	Davy Corp. plc	England	5,045.6	5,015.0
9	Lummus Group, Inc.	United States	4,600.0	2,693.0
10	C.F. Braun & Co.	United States	4,546.0	4,438.0
11	Taisei Corp.	Japan	4,521.0	485.0
12	Kajima Corp.	Japan	4,494.0	252.0
13	Foster Wheeler Corp.	United States	4,400.0	3,450.0
14	Shimizu Construction Co., Ltd.	Japan	4,220.4	220.4
15	Construtora Mendes Junior SA	Brazil	3,895.0	1,880.0
16	Ebasco Services Inc.	United States	3,416.1	420.1
17	Jacobs Engineering Group Inc.	United States	3,244.8	706.8
18	Hyundai Engineering & Construction Co., Ltd.	Korea	3,016.2	2,386.0
19	Dravo Corp.	United States	2,953.0	1,042.4
20	Kumagai Gumi Co., Ltd.	Japan	2,899.8	216.9
21	Guy F. Atkinson Co.	United States	2,842.0	1,982.2
22	IMPRESIT SpA	Italy	2,757.0	2,052.0
23	SADE/SADELMI Group of Cos.	Italy	2,720.0	2,705.0
24	Stone & Webster Engineering Corp.	United States	2,694.6	163.0
25	J.A. Jones Construction Co.	United States	2,632.8	26.1
26	Turner Construction Co.	United States	2,421.9	155.5
27	Daewoo Corp.	Korea	2,360.4	2,077.0
28	Spie Batignolles	France	2,306.7	1,543.7
29	Dumez	France	2,221.0	2,084.0
30	J. Ray McDermott Inc.	United States	2,202.4	995.6
31	Societe Auxiliare d'Entreprises	France	2,180.0	990.0
32	Hochtief AG	West Germany	2,120.0	1,170.0
33	Societe Generale d'Entreprises	France	2,066.0	1,336.0
34	Stearns-Roger Engineering Corp.	United States	1,988.5	40.0
35	Raymond International Inc.	United States	1,941.0	597.2
36	Fujita Corp.	Japan	1,929.0	216.0
37	Bilfinger + Berger Bau AG	West Germany	1,902.6	1,368.4
38	Ballast-Nedam Group N.V.	Netherlands	1,744.2	1,560.8
39	Grands Travaux de Marseille (GTM)	France	1,720.0	825.0
40	Burns & Roe Inc.	United States	1,687.8	493.2
41	Blount International Ltd.	United States	1,676.4	911.2
42	Daelim Industrial Co., Ltd.	Korea	1,672.4	1,374.8
43	Catalytic Inc.	United States	1,568.0	658.0
44	CBI Industries Inc.	United States	1,555.0	964.0
45	Austin Co.	United States	1,537.7	343.2

1985 Rank		Country	1985 Total	1985 Foreign
1	Parsons Corp.	United States	$8,620.0	$5,027.1
2	Bechtel Group Inc.	United States	7,364.0	3,626.0
3	M.W. Kellogg Co.	United States	6,757.0	6,204.0
4	Morrison Knudsen Corp.	United States	5,887.7	418.2
5	Brown & Root Inc.	United States	5,578.7	2,928.7
6	Fluor Corp.	United States	5,127.5	1,392.3
7	Rust International Corp.	United States	5,097.9	94.5
8	Kajima Corp.	Japan	4,953.4	627.7
9	Shimizu Construction Co., Ltd.	Japan	4,779.1	605.4
10	Kumagai Gumi Co., Ltd.	Japan	4,692.2	2,175.8
11	Taisei Corp.	Japan	4,641.3	266.5
12	Mitsubishi Heavy Industries, Ltd.	Japan	4,410.0	1,425.0
13	Obbayashi Corp.	Japan	4,280.0	377.8
14	Takenaka Komuten Co., Ltd.	Japan	3,787.0	189.0
15	Lummus Crest Inc.	United States	3,500.0	2,420.0
16	Philipp Holzmann AG	West Germany	3,232.5	1,948.2
17	Stearns Catalytic Corp.	United States	3,118.9	473.0
18	Bouygues	France	3,050.0	1,250.0
19	Ebasco Services Inc.	United States	2,751.9	62.1
20	Hyundai Engineering & Construction Co., Ltd.	Korea	2,536.4	1,998.1
21	Societe Auxiliare d'Entreprises	France	2,501.0	1,164.0
22	Spie Batignolles	France	2,442.6	1,212.3
23	Turner Corp.	United States	2,440.8	56.3
24	Hazama-Gumi Ltd.	Japan	2,266.3	499.8
25	Stone & Webster Engineering Corp.	United States	2,262.6	349.4
26	Davy Corp. plc	England	2,118.8	1,611.3
27	GTM-Entrepose	France	2,075.7	619.3
28	John Brown Engineers & Constructors	England	2,066.0	1,743.0
29	Foster Wheeler Corp.	United States	2,048.0	1,426.0
30	Fujita Corp.	Japan	1,980.0	83.0
31	Hochtief AG	West Germany	1,947.0	686.0
32	Sato Kogyo Co., Ltd.	Japan	1,913.2	121.1
33	Mitsui Construction Co., Ltd.	Japan	1,889.1	111.1
34	Nishimatsu Construction Co., Ltd.	Japan	1,803.7	225.9
35	Maeda Construction Co., Ltd.	Japan	1,800.2	87.7
36	SADE/SADELMI Group of Cos.	Italy	1,799.0	1,795.4
37	Toda Construction Co., Ltd.	Japan	1,779.4	55.1
38	Dravo Corp.	United States	1,728.7	467.2
39	Tokyu Construction Co., Ltd	Japan	1,680.0	90.0
40	IMPRESIT SpA	Italy	1,632.4	1,345.9
41	Skanska AB	Sweden	1,623.0	248.0
42	Jones Group Inc.	United States	1,597.9	26.8
43	Kaiser Engineers Inc.	United States	1,587.5	494.1
44	Enka Construction & Industry Co., Inc.	Turkey	1,572.5	1,081.6
45	JGC Corp.	Japan	1,420.2	1,020.1

Note: Figures include prime contracts, shares of joint ventures, subcontracts, design-cons[illegible] contracts and construction management contracts where the firm is exposed to financial liability similar to a general contractor (greater than $500,000). Design-construct contracts [illegible] based on the erected value of the plant, including installed equipment. Construction management contracts are based on the erected value of the project managed.

Source: Engineering News-Record and International Construction Week. Used with [illegible]mission.